



SECURITIES INSTITUTE

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14 July 2005

Mr. David Boymal,  
 The Chairman  
 Australian Accounting Standards Board  
 PO Box 204  
 Collins St West VIC 8007  
 AUSTRALIA

Via email: [standard@asb.com.au](mailto:standard@asb.com.au)

Dear Mr. Boymal,

**RE: The Role of Accounting Standard Setters and their relationships with the IASB**

The former Securities Institute recently merged with the Australasian Institute of Banking and Finance. The currently titled Institute of Securities, Finance and Banking (the 'Institute') welcomes the opportunity to provide comments to the AASB on 'The Role of Accounting Standard Setters and their relationships with the IASB'.

The new Institute has more than 20,000 members and students within a broad range of sectors of the financial services and securities industry. We aim to strengthen standards that support the objectives of market integrity, efficiency and consumer protection.

**1. Background**

In February 2005, the IASB issued an invitation to comment titled "Draft Memorandum of the Understanding on the Role of Accounting Standard Setters and their relationship with the IASB" ("the Invitation to Comment"). In March 2005, the AASB issued the IASB document as its own invitation to comment, requesting comments specifically on:

- the project role of accounting standard setters
- the role of accounting standard setters in interpreting International Financial Reporting Standards, and
- any issues that have not been covered that should be addressed in determining the role of the AASB and other accounting standard setters and their relationship with the IASB.

**2. General comments**

The Institute broadly supports the Proposals contained in the Invitation to Comment, which are designed to ensure that Accounting Standard-Setters work co-operatively, and effectively in achieving on-going International Accounting Standards. To this end, the Institute endorses the submissions made by the Institute of Chartered Accountants Australia (ICAA), in particular, the need for:

- a Memorandum of Understanding between the IASB and other Accounting Standard-Setters
- Accounting Standard-Setters to take the prime responsibility for dealing with domestic issues on adoption and convergence with IFRS and encouraging national/regional Regulators in their participations with IFRS

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ACN 056 027 389

[www.securities.edu.au](http://www.securities.edu.au) and [www.aibf.com](http://www.aibf.com)

Level 3 NAB House, 255 George Street, Sydney NSW 2000  
 T +61 2 8248 6799 | F +61 2 8248 6777 | E [info@securities.edu.au](mailto:info@securities.edu.au)

- proposals for the IASB to utilize the resources of Accounting Standard-Setters for Projects.
- proposals for the IASB to continue to provide reasonable lead times for the promulgation of Standards and the obligations on Accounting Standard-Setters to uphold compliance with the IFRS framework.

### 3 Specific comments

#### 3.1 *The project role of accounting standard setters*

Before considering the project role of standard setters, it is important to remember that standard setters across the globe have different roles, responsibilities and resources available to them.

In Australia, the AASB's functions and powers are set out in the *Australian Securities and Investment Commission Act 2001* (Cth). Accounting standards made by the AASB have the force of law. In making and formulating accounting standards, the AASB<sup>1</sup>

- must have regard to the suitability of a proposed standard for different types of entities, and
- may apply different accounting requirements to different types of entities, and
- must ensure that there are appropriate accounting standards for each type of entity that must comply with accounting standards.

In addition, the ASIC Act details the AASB functions to be:

- the development of a conceptual framework
- to make accountings standards for the purposes of the corporations legislation
- to participate in and contribute to the development of a single set of accounting standards for world wide use, and
- to advance and promote the main objects of Part 12 of the ASIC Act as detailed in S224.

The ASIC Act specifically requires the AASB to have regard to the interests of Australian corporations, which raise or propose to raise capital in major international financial centres.

The responsibilities of the AASB include the making of accounting standards for the not-for-profit sector, which is not the subject of the *Invitation to Comment*, given that the IASB's responsibilities are limited to the 'for-profit' sector.

Given these responsibilities, the AASB cannot effectively become a clearinghouse for the "rubber stamping of IFRS"; it must maintain a significant presence and must continue to attract and retain talented staff. In this regard, the AASB may be different to standard setters in other jurisdictions.

**Comment:** The AASB's ability to continue to attract and retain talented staff is inhibited through the adoption of IFRS by Australia on the basis that, in the private sector at least, the AASB has become a standards taker, rather than a standards maker. Australia's pre-eminent position in standards setting is at risk if the ability to attract and retain staff is compromised and participation on projects in consultation with the IASB and other standard setters (or alone) is a practical imperative.

Participation on such projects also allows the AASB to influence the direction of standard setting and should also be encouraged for this reason.

The Institute is concerned that the *Invitation to Comment* does not clearly indicate whether participation on projects is limited to "research" or whether such participation will result in the development and issuance of standards. It should be clear in the final document that participation should be comprehensive and therefore include the standards setting process, especially where the AASB has been involved in the research component.

#### 3.2 *Interpreting IFRS*

The issue of interpretation will be the most important issue going forward; there is a real danger that inter jurisdictional comparability will be lost if there is not consistency in interpretations.

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<sup>1</sup> s227(1) ASIC Act

**Comment:** The performance of the IASB in this area has been poor. Whilst the proposed arrangements are a good start, there needs to be an unambiguous framework within which interpretations can be issued. In this regard, there is no mention in the Invitation to Comment of a timeframe within which IASB must decide whether issues raised by the standard setters will be dealt with by the IASB, and issue an interpretation of a standard.

There must also be a mechanism whereby a standard setter that issues an interpretation can be assured that the interpretation is IFRS compliant. Accordingly, there needs to be a mechanism whereby the IASB opines on the interpretation prior to issue. This is particularly important for Australia where compliance with AASB standards is required by law.

#### 4. Broader issues

The Invitation to Comment deals with the interface between the standard setters and the IASB and not issues which help the AASB influence the IASB in its deliberations.

**Comment:** Australia is a small player in international markets and is in danger of losing its voice in influencing the direction of standard setting globally. To counter this possibility, the AASB needs to consider how it can develop alliances with other standard setters across the globe to influence the IASB. In this regard, the move to closer relationships with New Zealand is a good first step. This alliance, perhaps, needs to be expanded to other jurisdictions.

If you have any questions about any issues raised in this submission please contact the Institute's Senior Manager, Policy & Public Affairs, Kristen Foster, on (02) 8248 7660 or via email ([k.foster@securities.edu.au](mailto:k.foster@securities.edu.au)) or National Policy Adviser, Russell Thomas on (02) 8248 7508 or email ([r.thomas@securities.edu.au](mailto:r.thomas@securities.edu.au)).

Yours sincerely

A handwritten signature in black ink that reads "Brian Salter". The signature is written in a cursive style with a horizontal line at the end.

**Brian Salter ASIA**  
Chief Executive Officer